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MEMORANDUM ON THE MYSORE

SUBSIDY.

~~The History of the Subsidy.~~

By Article 2 of the Subsidiary Treaty of 1799, His Highness the Maharaja of Mysore agreed to pay the British Government an annual sum of 7 lakhs of star pagodas, equivalent to 24½ lakhs of rupees in modern currency, in consideration of troops maintained by the British Government for the "defence and security of His Highness's dominions". It was further stipulated (article 3) that in the event of hostilities being undertaken for the defence of the territories of either of the contracting parties, the Maharaja would contribute such a sum as might be considered just and reasonable by the Governor-General in Council. Thus the State of Mysore started with a recurring obligation to pay Rs 24½ lakhs annually to the British Government and an occasional liability to participate in the expenses of defensive war, should any be under taken.

Seven years afterwards, it was deemed expedient by the contracting parties that the provisions of the 3rd Article of the Treaty "should be rendered more specific, and that instead of the said indefinite contributions in war, the Mysore State should maintain a certain body of Horse in peace and war", and accordingly the Treaty of 29th January 1807

was concluded providing that Mysore should maintain at all times a body of 4,000 effective Horse. When making this provision for the maintenance of 4,000 Horse, it was understood that 1000 of them would be required for the internal protention of the country and that the remaining 3000 would always be available to accompany the British Army on service outside Mysore Territory.

In effect, the Treaty of 1807, while purporting to give definiteness to the provisions of the previous treaty greatly enlarged pre-existing obligations. For an occasional indefinite liability to contribute to the expenses of defensive war, it imposed a continuing obligation to maintain a large standing army at all times, i.e., both in peace and war. At the beginning of the 19th Century, when the condition of the country was still unsettled, and the prospect of war was an ever-present contingency, the maintenance of a large army in Mysore was perhaps no luxury. But with the establishment of the pax Britannica throughout the Indian continent and the restoration of settled conditions in Southern India, a large and expensive military establishment became a needless and extravagant precaution.

It was for this reason, apparently, that during the administration of Mysore by the British Commission, the strength of the Cavalry was gradually reduced till it consisted of 1000 Horse at the time of the Rendition in 1881.

The question of the Subsidy came up for consideration in 1867 when Her Majesty's Government decided to hand back the State to the Mysore Ruling Family. The Secretary of State for India, Sir Stafford Northcotte, wrote in his despatch to the Governor-General of India in Council, dated 16th April 1867, "As the cost of supporting troops has already increased since the date of the Subsidiary Treaty of 1799, it will obviously be necessary that the terms of that Treaty should be revised and some addition made to the subsidy. The great increase which has taken place in the resources of Mysore since 1799 will prevent such addition being felt as an additional burden." "The precise terms of the revision" it was added, "may be left to be settled when the young prince is put in possession of the Administration."

The question was accordingly considered on the eve of the Rendition, when for the first time the provisions of the Treaty of 1807 were revised and strictly enforced. It was calculated that the standing army which Mysore was required to maintain for external service (3000 Horse) would have cost about 10½ lakhs per annum and it was decided that this amount should be added to the annual Subsidy of Rs. 24½ lakhs, making in all Rs. 35 lakhs. This Subsidy, the Government of India wrote, "will discharge the State of its existing obligation to maintain a contingent for service outside its territory". These pro-

posals were approved by Her Majesty's Government and embodied in the Instrument of Transfer. In sanctioning this arrangement, the Secretary of State, the Marquis of Hartington, wrote "After careful consideration of the reasons adduced for fixing the future subsidy at the sum stated (Rs. 35 lakhs), Her Majesty's Government are disposed to agree that, having regard, on the one hand, to the liabilities undertaken by the British Government towards Mysore, and on the other hand, to the financial prospects of the province, the amount is not in excess of what may hereafter be reasonably demanded."

Though the Subsidy was fixed at Rs. 35 lakhs, it was not levied at the enhanced rate till 1896, in view of the crippled financial condition of the State as a result of the great famine of 1877-78. Since the year 1896, however, the subsidy has been demanded and paid in full.

In January 1893, Sir K. Seshadri Iyer submitted a representation to the Government of India urging that the enhancement of subsidy which was to come into effect in 1896, might be abandoned and that Mysore might be permitted instead to furnish two cavalry regiments for Imperial Service. This proposal did not, however, receive the approval of the Government of India (Resident's D.O. letter dated the 7th May 1893 to the Dewan).

In July 1895, Sir K. Seshadri Iyer

again submitted a Memorandum pointing out ~~at~~ the inexpediency of levying the enhanced subsidy, but the Durbar were informed (Residency letter No. 4780 dated 2nd December 1895) that "The Government of India, although desirous of treating the Mysore State with the utmost consideration, see no reason to further postpone the enhancement of the subsidy to Rs. 35 lakhs" which they accordingly decided to levy from 1st April 1896.

An appeal against this decision was preferred to the Secretary of State for India but he found no reason to modify his concurrence with the decisions arrived at by the Government of India (Residency letter No. 2267 dated 27th May 1897)

Mysore subsidy compared with tributes paid by the other Indian States.

~~Thus Mysore was permanently placed~~ The payment of which Mysore pays under ~~the necessity of paying an~~ annual subsidy of Rs. 35 lakhs, ~~This~~ is by far the largest tribute ~~paid by~~ received from British Government any Indian State, as will be seen from the following statement:-

Tribute paid by some of the important Indian States to the British Government.

Names of States	Tributes
Mysore.	35,00,000/-
Baroda	4,02,000/-
~~Gwalior~~	Nil
Indore	5,950/-
Travancore	7,96,800/-
Cochin	2,00,200/-
Kashmere	Five Shawls.

It is clear from the above statement ~~shows~~ that ~~though~~ Mysore which is by no means the largest or the most populous State in India, ~~it~~ pays the heaviest contribution for the military defence of the Empire. No other state pays more than a fifth of the subsidy for which Mysore is liable. The total area of all the States in India is 675,267 square miles, of which Mysore comprises 29,461 square miles, i.e., 4.7 %. In point of population, while the total for all Indian States comes to 70,864,995 that of Mysore is 5,705,359, i.e., about 8.2 %. As regards tribute, however, out of the total amount of Rs. 92 lakhs realised by the Government of India, Mysore pays 35 lakhs, i.e., nearly 40 %. (vide enclosure A) These figures clearly show the disparity between Mysore and other Indian States, in the matter of their contribution to the common defence of the Indian Empire.

Indirect Contribution of Mysore to Indian Treasury.

But the Subsidy, heavy enough in itself, does not represent the full measure of Mysore's contribution towards the defence of the Indian Empire. The people of Mysore pay various taxes to the British Government in the form of salt tax, import duties, etc. These indirect contributions amount to Ps. 52 lakhs ~~and are derived as follows:-~~

Assuming that the consumption of salt is about the same as in the rest of India,

...continued...

the amount paid by the people of Mysore for duty on salt, practically the whole of which has to be imported into the State, comes to Rs. 14,28,840/- The profit on the sale of opium, calculating it at Rs. 3-8-0 per seer on 1,500 seers, may be taken at Rs. 5000/-

Mysore share of the net receipts from import duties may be estimated in two ways, namely, (1) by calculating the duty on the actual imports into Mysore, and (2) on the assumption that the average rate per capita in Mysore is the same as in British India. The two methods give Rs. 20,85,000/- and Rs. 20,42,000/- respectively. The mean Rs. 20,60,000/- in round figures, may be taken as a fair estimate.

The profit which accrues to the Government of India on the circulation of currency notes in Mysore (roughly 1½ crores) is estimated at Rs. 3 lakhs and that on the coinage of silver, at Rs. 4,50,000/-. The Mysore share of the profits on the coinage of bronze and nickel comes to Rs. 32,000/-

Among other items of indirect contribution may be mentioned:-

Commission on Money orders Rs.	88,000/-
Incometax on thesurplus profits of the M.S.M.Ry., Co., for working the Mysore Railway.	2,000/-
Mysore share of surplus profits on the Govt. of India (B'lore to Basanthan) situated in Mysore	67,000/-

The total of these items comes, as

already stated, to Rs. 43½ lakhs.

Besides the above, the Mysore Government maintains the Imperial Service Lancers and the Imperial Service Transport Corps at a cost of, roughly, Rs. 7½ lakhs per annum, including pension charges. The expectations with which these units were formed, (may be) stated in Sir K. Seshadri Iyer's words (vide his demi-official letter dated 28th December 1899):

Mr. Crawford's D.O. letter dated 6th July 1899 (on the subject of certain proposals regarding the reorganization of the Mysore Cavalry and the formation of a Transport Corps) contains certain remarks which reflect not only on the policy of the State, but in a way also upon the memory of His Highness the late Maharaja. These remarks are due I believe to a misapprehension of parts of the previous correspondence, and in the hope of that I may be able, with your kind help, to prevent the possibility of any future misunderstanding on the subject, I propose in this letter to relate to you the inner history of the movement and acquaint you with the intentions and aspirations of the State from the time when the first offer was made of Troops for Imperial Defence.

I will deal in a separate letter with the reorganization of the Imperial Service Troops and the Transport Train and

will confine this note entirely to a representation of the history of the movement and the connected policy of the Durbar, which will I trust clear us, in the eyes of the Government of India, from the charge of not fulfilling our own spontaneous original offers.

I should explain that in referring to the Subsidy (as I do later on) I have no wish to revive the old question. I merely do so as necessary to the proper understanding of the situation.

Under the Treaty of 1807 the Mysore State was bound to maintain 4000 Horse of which 1000 were for purposes of internal order and 3000 for service in the field with British Troops. In lieu of the abovementioned 3000 Horse the British Government at the Rendition of the State in 1881 instituted the Enhanced Subsidy of 10½ lakhs, but waived its levy for 15 years till 1896.

If the material interests of the Mysore State alone were to be considered it would of course have been preferable to maintain the troops rather than pay the cost of them by way of the Enhanced Subsidy. It was however, not this aspect of the question which His Highness the late Maharaja felt so keenly as the fact that the Enhanced Subsidy took away from him the valued privilege of contributing Troops for Imperial purposes. This had been his feeling for some years, when towards the latter part of 1887 he heard of

the new policy of Lord Dufferin of allowing the Native States to improve a portion of their Troops and to offer the same for service side by side with the English Troops for Imperial Defence. This new policy showed the anomalous military position of Mysore in a stronger light than even before; for, on the one hand this large State was being asked to commute into a money payment, the Troops it was bound to contribute on occasions of war: on the other hand other States were being encouraged under the new policy to offer new contributions of specially trained War Troops for Imperial purposes. In the new policy His Highness saw an opportunity which would justify a reconsideration of the older policy which had led to the imposition of the Enhanced Subsidy. His Highness knew full well that the existing army in Mysore (which before the Rendition had been reduced to the minimum required for local purposes) was quite insufficient for furnishing any Troops for Imperial Service, and he was also convinced that the State could not afford to raise additional new Troops for Imperial Service iff the Enhanced Subsidy (then in abeyance) was eventually to be levied. And yet he was most anxious to be allowed a direct part in the Military defence of the Empire & to be afforded an opportunity for showing his personal loyaltyin the field. Animated by these sentiments he made the offer contained in his letter, dated the 17th December 1887.

In the letter he represented that his duty of Military Service to the Paramount Power was not being discharged in the best way possible and he asked to be allowed to raise new Troops for Imperial Defence. In thus offering to raise new Troops, he did not say how the cost should be met, for he naturally preferred to make no suggestion upon thatpoint, and he expected - not unreasonably - that the cost of any new Troops he might be permitted to raise for Imperial Service would surely be taken into account, when the time arrived for the levy of the Enhanced Subsidy.

His Highness' offer (17th December 1887) was under such circumstances not - like that of other states - to convert a portion of existing Troops into Imperial Service Regiments; it was to raise <u>new Troops</u> and to train them for Imperial Service. I believe that this differentiation between the Mysore Offer and the offer of other Native States was at that time quite understood by the Government of India. (The offer was made on 17th December 1887 and His Highness was in Calcutta from the 3rd to 10th January 1888, and under His Highness' instructions I had special opportunities of explaining at Calcutta the exact scope and special features of the Mysore offer. I however prefer not to rely upon private correspondence and conversations though my entire original confidential file is at your disposal for reference). The Text of His Highness' letter, dated 17th December 1887

Kharita, dated 17th December 1887.

leaves no doubt as to what was meant, and His Excellency the Viceroy's reply, dated 14th January 1888, acknowledging His Highness' offer "to raise and maintain" Troops, also showed that the Mysore offer had been understood as one to "raise" additional Troops and in that way as different from the offer of other Native States. Nothing further transpired till November 1888.

Viceroy's Kharita dated 14th Jany., 1888

Letter dated 17th November 1888.

In that month I wrote to the Resident, expressing His Highness' anxiety that the matter should be settled before Lord Dufferin's term of office expired; I pointed out how Mysore was unable to prepare any

It will be seen that though the offer of the Imperial Service units was spontaneous, it was coupled with an expectation that in view of the heavy cost of the new regiments, the British Government would generously waive their claim to the enhanced subsidy. As it turned out, however, the offer of the Imperial Service troops was accepted by the Government of India and had to be fulfilled, while the expected relief from the ~~the~~ payment of increased subsidy was refused. In 1880, the Government of India had written "The (increased) subsidy will discharge the State of its existing (but, it may be added, nominal and unenforced) obligation to maintain a contingent for service outside its territory". But within two decades after this, the Mysore State found itself, no doubt, by a voluntary act, committed again to obligations from which she had been expressly relieved.

To recapitulate, the following are the details of Mysore contributions for the military defence of the Empire. The calculations have been carefully made by Mr. K.L. Dutta (late of the Indian Finance Department) and may be relied upon as being approximately correct.

Indirect subsidy contributed by Mysore

to the Government of India.

	Rupees.
Gain of Government of India on opium sold to Mysore.	5,000/-
Salt Duty	14,27,000/-
Customs Duty	20,60,000/-
Profits on circulation of currency notes. ...	3,00,000/-
Profits on the coinage of silver	4,50,000/-
Profits on Bronze and Nickel coins	32,000/-
Commission on Money Orders	88,000/-
Imperial Service Regiment and Imperial Service Transport Corps.	7,50,000/-
Extra expenditure incurred on account of the Assigned Tracts.	1,00,000/-
Incometax on surplus profits of Madras and Southern Mahratta Railway	2,000/-
Government of India share of surplus profits on 56 miles of railway from Bangalore to Bisanatham.	67,000/-
	52,81,000/-

(In round figures Rs. 53 lakhs.)

Charges of defence in Mysore and India compared.

Adding to the above, the subsidy of Rs. 35 lakhs, the total contribution of Mysore comes to Rs. 88 lakhs or Rs. 1.51 per head of population. In the case of India as a whole including British possessions and Indian States the corresponding average figure for the years 1912-13 to 1914-15 is less than one rupee per head.

In these calculations, the recent increase in Military charges of the Government of India, which is due to the War and to a great extent of a temporary character and towards which Mysore has contributed liberally apart from the subsidy, has not been taken into account.

The need for relief.

The excessive burden laid on the State for military defence has been a standing grievance with the people of Mysore and the time has now arrived for asking for some substantial relief.

The recent financial review published by the Durbar giving a decennial review and quinquennial forecast of the State's finances will indicate the tension which at present exists in the adjustment of financial responsibilities of the Mysore Durbar in regard to the various branches of administration and works

of development. In spite of the fairly high level of taxation in Mysore, the Review shows that there is no appreciable surplus in the budget and adequate funds are not available for development. In fact, after providing for necessary reserves, the revenues fall short of the expenditure by about 5½ lakhs per annum. In recurring administration charges, there is no prospect of any retrenchments; on the other hand, there is a crying need in all parts of the State for rapid progress in Education, Sanitation, Medical relief, Agricultural and Industrial Development. Re-construction problems after the War are exercising their influence in all parts of India and over Native States administrations as well and to keep abreast of progressive ideas of administration, it is imperative that liberal grants should be provided in regard to the several branches connected with development works and the material and moral prosperity of the peoples. The subordinate staff of the various Government Departments still remain under-paid and with the increase in the cost of living, a substantial improvement in the scale of pay of such public servants is a matter of urgent necessity. Owing to restricted grants under public Works, the condition of roads, irrigation works and buildings has considerably deteriorated and a very large additional recurring expenditure is necessary to improve them. The programme of capital expenditure in respect of works already commenced will, during the next

five years involve an outlay of over five crores of rupees. In selling the securities with a view to find money for capital expenditure which the Durbar resolved to do upon the advice of Mr. K.L. Dutta, Special Financial Adviser, they have recently sustained a loss of nearly 32 lakhs which has to be written off the accounts under Assets and Liabilities; and when further securities are also sold, additional losses will have to be faced. The Durbar will have to borrow very largely from next year to meet their capital works programme as there will will be no savings that may be expected to accumulate from the year's financial transactions from which such expenditure could be met.

As regards military obligations, the Durbar have voluntarily offered their contribution towards Imperial defence and to what extent the Imperial Service Troops have been useful in time of need is a matter within the fullest cognizance of the Government of India and the Imperial Government. // The Government of India accepted His Highness' loyal offer to assist the Imperial Defence on the assurance that the cost of keeping up such troops will not strain the resources of the State. In 1893, Sir Seshadri Iyer very emphatically represented that Mysore cannot maintain an additional force costing 7 lakhs and also pay the enhanced subsidy and that the burden upon Mysore will not be heavier if in lieu of the addition of 10½ lakhs, Mysore

Mysore, is asked to maintain a suitable force for active service whenever called upon. He urged that such an arrangement would be in accordance with what was in force under the Treaty of 1807 and would enable the Maharaja to fulfil his loyal wish to take a suitable part in the scheme of Imperial defence.

During the 4½ years of war, mobilization and other charges came to 11½ lakhs which ~~my~~ Government have willingly borne from their general revenues declining to accept the generous offer made by the Government of India that it may form ~~the~~ a charge against His Majesty's Government. (Vide Residency letter dated the 19th March 1919 and the Durbar's letter dated the 18th July 1919.)

The cost under the Imperial Service Regiment and the Imperial Service Transport Corps during the past ten years has increased from Rs. 6,20,000/- to Rs. 7,40,000/- and the standard of expenditure under Military is estimated to be about Rs 14 lakhs. Adding 35 lakhs the present subsidy , the total Military expenditure of Mysore represents a very heavy per centage of the total revenues -- ~~totally~~ disproportionate to the military needs under internal protection or imperial defence. As already explained the total contribution Mysore pays to the Government of India direct and indirect - at present stands at a figure which is higher than the average for the whole of the British possessions and the

Indian States.

Mysore being an inland State is to a very large extent handicapped in the development of her public revenues. The question of levying export and import duties bristles with many difficulties; the imposition of income tax will hardly bring an apprciable increase and the requirements under obligatory schemes to develop education and promote medical relief and sanitation in the State, will involve a very large additional recurring expenditure amounting to over 30 lakhs per annum during the next five years. Even making allowances for the growth of revenue under Land Revenue, Mysore Railways and Krishnaraja sagara Irrigation works, the State has now to face a serious deficit having regard to the progress in expenditure to which it is morally committed during the next quinquennium.

The Durbar, therefore, can only look to the British Government for relief from this enormous burden of the Subsidy. As stated already, the cost of defence in India works out to about one rupee per head. Adopting this as a fair incidence, the contribution payable by Mysore would come to about Rs. 57 lakhs. Nearly the whole of this amount (Rs. 57 lakhs) is paid by Mysore in various indirect levies, ~~so that she has a good reason~~ for asking that the whole of the subsidy (Rs.35 lakhs) be remitted. If, however, this is considered an extravagant claim, the Durbar

and ~~on this~~ there is therefore substantial ground

will be content with any reduction in the subsidy which the British Government, upon a consideration of all the facts above represented, might consider just and equitable.

In the discussions connected with the increase of subsidy two main principles were emphasised, viz., (1) that it was necessary to exact a fair equivalent for whatever treaty obligations Mysore had undertaken in the past, and (2) that Mysore must pay towards the subsidy as much as her finances admitted..

Acting on these principles the Statesmen of the day, with every desire to be fair and moderate, adopted a method of reckoning which ignored several important considerations. They laid stress upon the increased cost of military establishments as a justification for increasing the subsidy, but did not take into consideration the infrequency of war which had largely reduced military expenditure. They did not overlook the fact that the people of Mysore paid the salt tax to the British Government but this circumstance did not receive more than passing consideration. The other indirect levies obtained by the Indian Exchequer from the people of Mysore (which, as already shown, constitute quite a considerable amount) were hardly considered in the reckoning. The dominant idea was that Mysore having agreed in the past must pay according to her treaty stipulations to the best of her financial capacity.

It is respectfully submitted that due weight was not given to the fact that the treaties themselves were concluded at a time when the troubled conditions of India demanded the maintenance of large stading armies. If regard is to the spirit of the treaty it is clear that the rationale of the subsidy is "the defence and security of His Highness' dominions" which has been undertaken by the British Government. The subsidy in other words, represents the price of protection. If so, it is but fair to calculate it on the basis of the proportionate cost of defence for the whole of the Indian Empire.